

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL OF NALA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Nala Local Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Inventories

4. I was unable to obtain sufficient appropriate audit evidence for inventories with a balance of R39 457 555 (2009: R38 644 147), as disclosed in note 5 to the financial statements, due to an inadequate record management system. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for inventories as per note 5 to the financial statements.

Other receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for other receivables from exchange transactions with a balance of R1 369 807 (2009: R4 259 637), as disclosed in note 7 to the financial statements, due to an inadequate record management system and lack of capacity and skill to utilise the financial accounting system. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for other receivables from exchange transactions as per note 7 to the financial statements.

Consumer receivables

6. I was unable to obtain sufficient appropriate audit evidence for consumer receivables with a balance of R20 003 669 (2009: R7 721 085), as disclosed in note 8 to the financial statements, due to an inadequate record management system and did not address the shortcomings identified with the conversion of accounting systems. I was unable to

confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for consumer receivables as per note 8 to the financial statements.

Investment property

7. I was unable to obtain sufficient appropriate audit evidence for investment property with a balance of R10 509 000 (2009: R10 509 000), as disclosed in note 10 to the financial statements, due to an inadequate record management system. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for investment property as per note 10 to the financial statements.

Property, plant and equipment

8. I was unable to obtain sufficient appropriate audit evidence about property, plant and equipment reflected as R843 195 371 (2009: R810 260 181) as per note 11 to the financial statements, due to an inadequate record management system. In addition sufficient appropriate audit evidence could not be provided to substantiate whether the expert's valuation methodology was appropriately and consistently applied. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for property, plant and equipment.

Trade and other payables from exchange transactions

9. In accordance with SA Standards of GRAP's *Framework for Preparation and Presentation of Financial Statements*, the financial statements should be prepared on the accrual basis. However, due to shortcomings in the accounting management system the financial records were compiled on the cash basis from the bank statements and subsequent payments were used to accrue payables at year end. Due to the lack of control over the recording of liabilities and the significant non-payment of suppliers I could not determine the possible understatement of trade and other payables, other classes of transactions and disclosure notes as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments were necessary to the amounts disclosed as trade and other payables from exchange transactions in note 16 with a balance of R76 432 058 (2009: R37 691 038) to the financial statements

VAT Payable

10. I was unable to obtain sufficient appropriate audit evidence for VAT Payable with a balance of R9 351 487 (2009: R11 848 471), as disclosed in note 17 to the financial statements due to an inadequate record management system and lack of capacity and skill to utilise the financial accounting system. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for VAT Payable as per note 17 to the financial statements.

Consumer deposits

11. I was unable to obtain sufficient appropriate audit evidence for consumer deposits with a balance of R1 120 770 (2009: R1 075 586), as disclosed in note 18 to the financial statements, due to an inadequate record management system and lack of capacity and skill to utilise the financial accounting system. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for consumer deposits as per note 18 to the financial statements.

Non-current provisions

12. The municipality did not record and disclose a provision for landfill sites as required by Standard of Generally Recognised Accounting Practice, GRAP 19, *Provisions, contingent liabilities and contingent assets*, which resulted in non-current provisions being understated by an undetermined amount due to the lack of sufficient and appropriate audit evidence to determine the balance that should have been disclosed. In addition, sufficient appropriate audit evidence was not available to confirm the balance of R2 (2009: R2) for non-current provisions as disclosed in note 20 to the financial statements. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for non-current provisions as per note 20 to the financial statements.

Accumulated surplus

13. I was unable to obtain sufficient appropriate audit evidence for the accumulated surplus with a balance of R783 905 499 (2009: R788 855 725), as disclosed in the statement of financial position due to material scope limitations effecting the balance. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for the accumulated surplus.

Service charges

14. I was unable to obtain sufficient appropriate audit evidence for service charges to the amount of R90 229 553 (2009: R81 845 671), as disclosed in note 25 to the financial statements, due to an inadequate record management system and lack of capacity and skill to utilise the financial accounting system. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for service charges as per note 25 to the financial statements.

Other income

15. I was unable to obtain sufficient appropriate audit evidence for other income to the amount of R711 395 (2009: R625 858), as disclosed in note 29 to the financial statements, due to an inadequate record management system and lack of capacity and skill to utilise the financial accounting system. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for other income as per note 29 to the financial statements.

Contracted services

16. I was unable to obtain sufficient appropriate audit evidence for contracted services to the amount of R7 248 601 (2009: R8 917 230), as disclosed in note 31 to the financial statements, due to an inadequate record management system. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for contracted services as per note 31 to the financial statements.

Employee related costs

17. I was unable to obtain sufficient appropriate audit evidence for employee related costs to the amount of R59 263 368 (2009: R50 043 098), as disclosed in note 34 to the financial statements, due to an inadequate record management system and lack of capacity and skill to utilise the financial accounting system. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for employee related costs as per note 34 to the financial statements.

General expenses

18. I was unable to obtain sufficient appropriate audit evidence for general expenses to the amount of R32 548 276 (2009: R24 982 117), as disclosed in note 36 to the financial statements, due to an inadequate record management system. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for general expenses as per note 36 to the financial statements.

Repairs and maintenance

19. The municipality did not implement an asset management policy to determine how subsequent cost should be recorded and disclosed in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Due to the lack of policy and subsequent lack of review of subsequent costs I was unable to determine if repairs and maintenance to the amount of R4 763 175 (2009: R8 355 096), as disclosed in note 39 to the financial statements, should have been capitalised as property, plant and equipment. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for repairs and maintenance as per note 39 to the financial statements and property, plant and equipment as per note 11 to the financial statements.

Impairment loss

20. I was unable to obtain sufficient appropriate audit evidence for impairment loss to the amount of R1 994 558, as disclosed in the statement of financial performance, due to an inadequate record management system and lack of capacity and skill to utilise the financial accounting system. . I was unable to confirm the impairment loss by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for impairment loss.

Commitments

21. I was unable to obtain sufficient appropriate audit evidence for commitments approved and contracted for to the amount of R42 812 415 (2009: R45 603 927) and commitments approved but not yet contracted for of R108 742 363 (2009: R130 279 322) as disclosed in note 42 to the financial statements, due to an inadequate record management system. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for commitments as per note 42 to the financial statements.

Contingent liabilities

22. I was unable to obtain the sufficient and appropriate audit evidence to confirm the completeness of contingent liabilities to the amount of R1 394 243 (2009: R868 526) as disclosed in note 43 to the financial statements, due to an inadequate record management system. I was unable to confirm the completeness of the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for contingent liabilities as per note 43 to the financial statements.

Irregular expenditure

23. The municipality did not have adequate systems in place to detect and disclose irregular expenditure. The municipality made payments in contravention of the supply chain management (SCM) requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R9 744 689 (2009: R1 097 882). Furthermore I was unable to obtain sufficient appropriate audit evidence for payments amounting to R27 770 662. I was unable to confirm the completeness for irregular

expenditure by alternative means. In addition, sufficient and appropriate audit evidence was not available to confirm the irregular nature of the payments disclosed as irregular expenditure. Consequently, I was unable to determine whether any adjustments to the amount disclosed for irregular expenditure in note 68 to the financial statements for the current year and the corresponding figure were necessary.

Fruitless and wasteful expenditure

24. I was unable to obtain the sufficient and appropriate audit evidence to confirm the fruitless and wasteful expenditure disclosed in note 67 to the financial statements, fruitless and wasteful expenditure of R11 178 518 (2009: R5 121 022) due to an inadequate record management system I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for fruitless and wasteful expenditure as per note 67 to the financial statements.

Presentation and disclosure

25. The municipality did not disclose distribution losses as required by section 125(2) (d) of the MFMA. Due to the lack of controls, information and reconciliations to calculate the distribution losses, I was unable to determine the distribution losses that should have been disclosed.

Risk Management

26. Due to material and pervasive limitation of scope errors experienced and reported elsewhere in this report I was unable to obtain sufficient and appropriate audit evidence relating to liquidity risk disclosures of financial liabilities as disclosed in note 52, including borrowings, trade and other payables and finance lease obligations to the amounts of R29 334 717 (2009: R25 751 332); R76 432 058 (2009: R37 691 038) and R1 185 646 (2009: R1 646 385) respectively, nor was I able to obtain sufficient and appropriate audit evidence relating to credit risk disclosures of financial assets specifically other receivables and consumer receivables to the amount of R1 369 807 (2009: R4 259 637) and R20 003 669 (2009: R7 721 085).

Cash flow statement

27. I was unable to obtain sufficient appropriate audit evidence as to whether the cash flow statement and the related notes for the current and prior financial years were fairly stated, due to the material effect of scope limitations. I was unable to confirm the cash flow by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed in the cash flow statement.

Disclaimer of Opinion

28. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

29. I draw attention to the matters below.

Restatement of corresponding figures

30. As disclosed in notes 47 to 65 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during the 2009-10 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2009.

Financial sustainability and going concern

31. Note 45 to the financial statements indicates that the Nala Local Municipality incurred a net loss of R4 950 223 for the year ended 30 June 2010 and, as of that date, the municipality's current liabilities exceeded its current assets by R43 816 664. These conditions, along with other matters as set forth in the note indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Impairments

32. As disclosed in note 8 to the financial statements, a provision for a decrease in value to the amount of R192 783 583 (91%) (2009: R152 709 994) (95%) was made with regard to amounts owing to the municipality in respect of services rendered by the municipality, rates and taxes and other charges amounting to R212 787 252 (2009: R160 431 079).

Unauthorised expenditure

33. As disclosed in note 66 to the financial statements, the municipality incurred unauthorised expenditure of R4 984 898 during the current financial year due to inadequate budgetary control measures. The total reported unauthorised expenditure per vote that was disclosed for the year ended 30 June 2010 amounts to R58 369 873.

Additional matters

34. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

35. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

36. The supplementary information set out on pages 73 to 76 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA REQUIREMENTS

37. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

38. I am unable to report findings on the usefulness and reliability of the annual performance report of Nala Local Municipality as it was not prepared as required section 46 of the MSA and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

39. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

40. The municipal council did not, within the prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality as required by section 25 of the Municipal Systems Act (MSA).
41. The municipal council did not, within the prescribed period after the start of its elected term, adopt a process set out in writing to guide the planning, drafting, adoption and review of its integrated development plan as required by section 28(1) of the MSA.
42. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.
43. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1) (a) (ii) of the MFMA.
44. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury as required by section 72(1) (b) of the MFMA.

Budgets

45. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.
46. Sufficient and appropriate audit evidence could not be obtained that the mayor submitted all quarterly reports to council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
47. Sufficient and appropriate audit evidence could not be obtained that the accounting officer submitted the monthly budget statements to the mayor and/or the relevant provincial treasury, as required by section 71(1) of the MFMA.

Annual financial statements and annual report

48. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment, accumulated surplus, payables, VAT, receivables, revenue, expenditure, employee related costs and other disclosure notes identified by the auditors were subsequently corrected resulting in no material misstatements being reported. The financial statements still received a disclaimer of opinion due to material and pervasive limitation of scope regarding revenue, receivables, expenditure, employee related costs, receivables, payables, property, plant and equipment, provisions and VAT.
49. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1) (a) of the MFMA.

50. Non submission of the annual financial statements to the Auditor-General for auditing was not appropriately addressed by the Mayor and municipal council as per the requirements of section 133(1) of the MFMA.
51. The mayor did not submit a written explanation to the council setting out the reasons for the delay in the tabling of the 2008/09 annual report in council as required by section 127(3) of the MFMA.
52. The accounting officer did not make the 2008/09 annual report public immediately after the annual report was tabled in the council as required by section 127(5) of the MFMA.
53. The municipal council did not adopt an oversight report containing the council's comments on the annual report within two months from the date on which the 2008/09 annual report was tabled in the council as required by section 129(1) of the MFMA.
54. The accounting officer did not make public the council's oversight report on the 2008/09 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
55. The performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3) (c) of the MFMA.

Audit committees

56. No audit committee was in place as required by section 166(1) of the MFMA. The audit committee was only appointed subsequent to year end. (Ex.5)
57. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

Internal audit

58. The municipality did not have an effective and functioning internal audit unit in place as required by section 165(1) of the MFA.
59. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - Internal audit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review;
 - Internal audit did not report to the audit committee on the implementation of the internal audit plan;
 - Internal audit did not advise the accounting officer on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
60. Internal audit did not report to the audit committee on matters relating to compliance with the MFMA, the Division of Revenue Act and other applicable legislation as required by section 165(2)(b) of the MFMA.
61. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14.
62. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the

system complied with the requirements of the Municipal Systems Act as required by Municipal Planning and Performance Management Regulation 14.

63. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by Municipal Planning and Performance Management Regulation 14.
64. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

65. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of between R10 000 and R200 000 were procured by means of obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
66. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
67. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
68. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) & 22(2).
69. Sufficient appropriate audit evidence could not be obtained that awards were to providers based on criteria that were similar to those stipulated in the original bid documents and/or were stipulated in the original bid documents as per the requirements of SCM regulation 21(b) and/or 28(1).
70. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
71. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services as per the requirements of SCM regulation 27(2)(a).
72. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as per the requirements of SCM regulation 28(2).
73. Sufficient appropriate audit evidence could not be obtained that final awards and/or recommendation of awards to the accounting officer were made by an adjudication committee constituted as per the requirements SCM regulation 29(2).

74. Sufficient appropriate audit evidence could not be obtained that awards were made to providers whose tax matters have been declared by the South African Revenue Services to be in order as required by SCM regulation 43.
75. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
76. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
77. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers that scored the highest points in the evaluation process as per the requirements of section 2(1) (f) of Preferential Procurement Policy Framework Act.
78. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2) (b) of the MFMA.
79. The contract performance measures and methods whereby they are monitored were insufficient to ensure effective contract management as per the requirements of section 116(2) (c) of the MFMA.
80. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1) (a).
81. Contracts were extended or modified to the extent that competitive bidding processes were being circumvented contrary to the requirement of a fair supply chain management system in sec 112 of the MFMA.
82. Contracts were extended and/or modified without tabling the reasons for the proposed amendment in the council of the municipality as required by section 116(3) of the MFMA.

Human resource management

83. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.
84. The municipal manager did not provide job description's for each post in the staff establishment as required by section 66(1) (b) of the MSA.
85. The municipal manager did not sign an annual performance agreement for the year under review, as required by sections 57(1) (b) and 57(2) (a) of the MSA.

Expenditure management

86. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
87. Sufficient appropriate audit evidence could not be obtained that payments were approved by the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.

88. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised expenditure when it was incurred and accounted for creditors of the municipality as required by section 65(2)(b) of the MFMA.
89. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the Municipal Finance Management Act.
90. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.
91. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.

Conditional grants

92. Sufficient appropriate audit evidence could not be obtained that the allocations for equitable share and municipal infrastructure were utilised for the purposes stipulated in their respective schedules or Gazetted Division of Revenue Act framework, as required by section 15(1) of the DoRA.
93. The municipality did not always submit monthly reports to the transferring national officer, the National Treasury and the Provincial Treasury on spending and financial performance in respect of the allocations received for equitable share and municipal infrastructure as required by section 11(2)(b) of the DoRA and section 71(5) of the MFMA.
94. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for equitable share and municipal infrastructure as required by section 11(2)(c) of the DoRA.
95. The accounting officer did not evaluate the performance of the municipality in respect of programmes funded or partially funded by a schedule 4 allocation within two months after the end of the financial year as required by section 11(6) of the DoRA.

Revenue management

96. Interest was not charged on all arrears accounts as required by section 64(2) (g) of the MFMA.
97. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2) (h) of the MFMA.
98. The council did not adopt a policy on the levying of rates on rateable property within the municipality as required by section 3(1) of the Property Rates Act.
99. A credit control and debt collection policy was not implemented as required by section 96(b) of the MSA.
100. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which

recognised revenue when it is earned / accounted for debtors / accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Asset management

101. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.
102. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2) (c) of the MFMA.

Internal control

103. I considered internal control relevant to my audit of the financial statements and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the predetermined objectives and the findings on compliance with laws and regulations included in this report.

LEADERSHIP

104. The accounting officer and chief financial officer in office during the period under review did not provide effective leadership based on a culture of fairness, ethical business practices and good governance, protecting and enhancing the best interests of the municipality as is evident from the disregard for SCM regulations and limitation of scope reported on expenditure and procurement and contract management.
105. The municipality did not continuously exercise oversight responsibility and develop and implement policies and procedures regarding financial and performance reporting and related internal controls because of a lack of urgency to fill vacancies and address the capacity issues at the municipality resulting in the material corrections to the financial statements and the limitations reported on predetermined objectives, receivables, payables, property, plant and equipment and the recurrence of issues reported in prior audit reports.
106. The municipality did not manage the conversion process when the financial accounting system was converted during the year ended 30 June 2008, and the leadership in office during the year under review has not yet developed action plans to correct the opening balances.

FINANCIAL AND PERFORMANCE MANAGEMENT

107. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting due to vacancies that were not filled as well as lack of urgency from management to prioritise proper record keeping. This is evident in the material and pervasive scope limitations that resulted in the disclaimer of opinion.
108. The municipality did not develop and implement appropriate policies and procedures over daily and monthly processing, reconciling of transactions and non-compliance with legislation, as this was not prioritised by management and there was a lack of competent staff members to implement controls and reconcile transactions.
109. The municipality did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information

109. The municipality did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information due to problems with the procurement of the IT supplier and non-payment of the supplier. This is evident from the various findings on the accounting system and the limitation of scope relating to the accounting system.

GOVERNANCE

110. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored as this was not a priority of management in office during the year under review. This is evident from the fact that no risk assessment was conducted and no risk strategy was developed as required by the MFMA.
111. The accounting officer did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively as is evident from the fact that an internal auditor was appointed but there was no effective internal audit unit in place at the municipality during the year under review.
112. The municipality did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations as no audit committee or performance audit committee was in place during the year under review. Management did not appoint an audit committee as governance and the improvement of the control environment was not prioritised by management.

OTHER REPORTS

Investigations

113. An investigation was requested by the Free State Department of Co-operative Governance and Traditional Affairs on 7 June 2010, as a result of work done as part of Operation Clean Audit, to probe the following for the period 1 July 2008 – 30 June 2010:
- Potential irregular awarding of tenders for the period 1 July 2008 – 30 June 2010 to identify possible irregularities;
 - Potential irregular appointment of consultants to identify possible irregularities;
 - Potential irregular payments to suppliers as a result of a review of transactions performed as part of Operation Clean Audit.

The investigation concluded at the reporting date and the results were submitted to the National Prosecution Authority and criminal proceedings will be instituted against the individuals implicated in the report.

Auditor-general

Bloemfontein

27 September 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence